

APPENDIX B-2

COST ALLOCATION PLANS

A Cost Allocation Plan (CAP) is a document that identifies, accumulates and distributes allowable direct and indirect costs under subgrants and contracts and identifies the allocation methods used for distributing the costs. A plan for allocating joint costs is required to support the distribution of those costs to the grant program. All costs included in the plan must be supported by formal accounting records to substantiate the propriety of the eventual charges.

TYPES OF ALLOCATION PLANS

A distinction is made between two types of CAPs; i.e. the plans needed to allocate organization-wide and central services costs to individual departments within the organization (Indirect Cost Plan) and the plans needed to allocate costs within a department to grants and other final cost objectives.

The indirect cost plan identifies and distributes the costs of services provided by support organizations (such as personnel, treasury, security, legal) to departments or units administering Federal grants or contracts. At the State level it is referred to as the State-Wide Cost Allocation Plan (SWCAP). Indirect cost/central service CAPs are usually approved by a Cognizant Federal agency. Similar types of indirect CAPs for central services are also common to local units of government and to larger nonprofit organizations. Indirect cost plans are discussed further in a later section.

The second type of CAP distributes the administrative or other joint costs incurred within a performing (sub-recipient or contractor) department or unit, together with the service costs allocated to it under the indirect cost proposal, to all work performed by that department or unit. This type of plan is developed by the unit that directly operates the WIA program to allocate costs between its WIA and non-WIA programs and between cost categories within WIA. This type of plan is commonly referred to as a CAP.

CONTENTS OF THE COST ALLOCATION PLAN

The CAP should include at least the following elements:

- Organization chart that identifies all departments, types of services provided and WIA and non-WIA staff functions
- Description of the types of services provided and their relevance to WIA projects (generally called a Statement of Function and Benefit). This would include all WIA and non-WIA revenue sources and cost objectives.
- Copy of official financial statements or budgets
- Expense items included in the cost of the services. This would include all joint or pooled costs needing to be allocated (such as staff whose work benefits more than one cost objective, cost pools established for administrative costs and other types of pooled costs, and all other costs that cannot be readily assigned to a single cost objective).

- The methods used in distributing the expenses to benefiting cost objectives. This requires identifying the basis for allocating each type of joint or pooled cost, and the documentation for supporting each basis for allocation.
- Certification by an authorized (sub)recipient official that the plan has been prepared in accordance with the WIA Act and regulations and State or other applicable requirements.
- For WIA entities that are charged indirect or central services costs, the CAP should also include:
- Identification of the departments rendering the service costs to benefiting departments (summary CAP)
- Summary schedule of the allocations of central service costs to operating departments.

The following suggestions should also be considered when developing a CAP:

- **Keep it Simple.** The simplest and least costly method possible, based on a measure of relative benefit received, that will produce an equitable allocation of costs to programs and cost categories, should be used.
- **Make it Replicable.** The process that is developed must be able to be duplicated at any time, and with changes in the organization or funding levels.
- **Simplify the Organizational Structure.** The organizational structure of the CAP should be made no more complicated than necessary to allocate costs.
- **Consider What is Required.** The required structure and capabilities of the accounting system must be considered in designing an operable cost allocation process.
- **Make Changes Prudently.** Changes in an organization's CAP that result in retroactive redistribution of costs to the benefiting cost objective are allowable where the change results in a more equitable distribution of costs. Such changes in allocation methodology should be rare, should receive the necessary prior approvals, and should be justified and well documented.

VALUE OF COST ALLOCATION PLANS

In addition to documenting the allocation of costs and prior approvals, the CAP has other benefits and advantages for the organization. As a management tool, the CAP provides a clear and concise method to develop budgets and prepare plans. It also promotes equitable sharing of indirect costs from all programs and activities, beginning with their appropriate recognition in the budget process. The CAP eliminates the arbitrary methods sometimes used to account for all costs as direct costs in order to achieve full reimbursement and establishes creditable fiscal accountability practices that recognize indirect and shared direct costs as a necessary cost of program delivery. It is vital to the establishment of financial management standards and practices that may be applied uniformly with all grantee agencies through the accounting and budgeting process, as well as, the creation of financial management structures that recognize that costs

relative to programs or units of service consist of both direct and indirect costs. An additional benefit of the CAP is that it promotes the use of up-to-date, integrated grantee accounting systems and procedures within their organizational entities, so that shared direct and indirect costs can be identified and allocated across all programs and activities. Finally, the CAP meets Federal cost principles and standards when requiring approved plans as a prerequisite to claiming reimbursement of indirect costs and improves and standardizes fiscal management policies and practices.

ADDITIONAL CONSIDERATIONS

General Indirect Costs

General indirect costs normally should be charged to the Administrative cost category, except that specific costs charged to an overhead or indirect cost pool that can be identified directly with a WIA cost objective/category other than Administration may be charged to the WIA cost objective/category directly benefited, as described and justified in the CAP.

Governmental Grantees

OMB has assigned the responsibility for approving the CAPs of most units of local government to Federal agencies (primarily the Department of Health and Human Services (DHHS)). Some local area grantee administrative entities, especially those that are governmental agencies, have indirect cost rates that are already approved by a cognizant Federal agency. The State or the unit of local government should request an agency review of the indirect rate if questions arise on the application of the indirect rate to WIA.

Nonprofit Agencies

In some cases, agencies do not have indirect cost rates but wish to establish a rate to facilitate charging indirect costs to WIA awards. OMB Circular A-122, *Cost Principles for Nonprofit Organizations*, applies to determining indirect cost rates for nonprofit organizations. For assistance in preparing indirect cost rate proposals, nonprofit organizations should use the *Indirect Cost Determination Guide* published by the DOL Office of the Assistant Secretary for Administration and Management, Office of Cost Determination. Indirect cost rate proposals are required when a nonprofit organization has more than one source of funding and elects to recover indirect costs as well as the direct costs for meeting grant or contract obligations. Where a nonprofit sub-recipient is required to obtain an indirect cost rate, the awarding agency should provide technical assistance and may wish to review and approve the indirect cost rate.

WIA Subrecipients

State and local governmental agencies that are not local area grantees but that operate WIA programs as sub-recipients often have indirect cost rates already approved by a cognizant Federal agency. These rates should be reviewed by the awarding agency to determine their appropriateness for WIA. Any rate approved by the awarding agency should not exceed the rate approved by the cognizant Federal agency for Federal grants.